

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

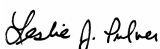
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

# **Charter Township of Independence Oakland County, Michigan**

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**Financial Report  
with Supplemental Information  
December 31, 2006**

# Charter Township of Independence

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# **Charter Township of Independence**

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## Independent Auditor's Report

To the Honorable Members  
of the Township Board  
Charter Township of Independence  
Oakland County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Independence as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Independence as of December 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules of the General Fund and Major Special Revenue Funds and the pension system schedule of funding progress identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Members  
of the Township Board  
Charter Township of Independence  
Oakland County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Independence's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moreau, PLLC*

June 14, 2007

# Charter Township of Independence

## Management's Discussion and Analysis

Our discussion and analysis of the Charter Township of Independence's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2006. Please read it in conjunction with the Township's financial statements.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statement provides financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

### Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior year:

	2004	2005	2006	Change from Prior Year	
				Amount	Percent
<b>Assets</b>					
Current assets	\$ 21,126,956	\$ 22,295,804	\$ 24,289,434	\$ 1,993,630	8.9
Capital assets	15,890,603	15,320,635	14,847,766	(472,869)	(3.1)
Total assets	37,017,559	37,616,439	39,137,200	1,520,761	4.0
<b>Liabilities</b>					
Current liabilities	12,816,881	13,127,729	13,360,307	232,578	1.8
Long-term liabilities	1,103,279	885,225	1,193,196	307,971	34.8
Total liabilities	13,920,160	14,012,954	14,553,503	540,549	3.9
<b>Net Assets</b>					
Invested in capital assets -					
Net of related debt	14,432,094	14,445,252	13,500,132	(945,120)	(6.5)
Restricted	6,470,784	5,965,369	7,217,041	1,251,672	21.0
Unrestricted	2,194,521	3,192,864	3,866,524	673,660	21.1
Total net assets	\$ 23,097,399	\$ 23,603,485	\$ 24,583,697	\$ 980,212	4.2

# Charter Township of Independence

## Management's Discussion and Analysis (Continued)

	2004	2005	2006	Change from Prior Year	
				Amount	Percent
<b>Revenue</b>					
Program revenue:					
Charges for services	\$ 3,706,288	\$ 3,409,517	\$ 3,348,595	\$ (60,922)	(1.8)
Operating grants and contributions	183,131	100,577	173,356	72,779	72.4
Capital grants and contributions	443,557	272,395	660,634	388,239	142.5
General revenue:					
Property taxes	9,769,873	10,516,078	11,050,191	534,113	5.1
State-shared revenue	2,446,909	2,473,666	2,427,673	(45,993)	(1.9)
Investment earnings	359,655	496,849	649,538	152,689	30.7
Franchise fees	352,784	318,615	362,087	43,472	13.6
Miscellaneous	236,736	60,722	75,212	14,490	23.9
Total revenue	17,498,933	17,648,419	18,747,286	1,098,867	6.2
<b>Program Expenses</b>					
General government	3,098,401	2,693,708	2,698,114	4,406	0.2
Public safety	7,613,991	8,089,031	9,116,398	1,027,367	12.7
Public works	300,940	526,736	607,654	80,918	15.4
Public services	2,002,074	1,531,747	1,439,503	(92,244)	(6.0)
Health and welfare	49,578	87,226	107,200	19,974	22.9
Recreation and culture	3,930,233	4,168,746	3,740,799	(427,947)	(10.3)
Interest on long-term debt	107,099	86,624	57,406	(29,218)	(33.7)
Total program expenses	17,102,316	17,183,818	17,767,074	583,256	3.4
<b>Change in Net Assets</b>	<b>\$ 396,617</b>	<b>\$ 464,601</b>	<b>\$ 980,212</b>	<b>\$ 515,611</b>	111.0

The Township's governmental revenues have remained relatively stable since 2004. The Township anticipates that the revenue stream will remain constant. It is also worth noting that although the Township did experience a decrease in state-shared revenue of approximately \$46,000, that is a small decrease compared to recent years.

Expenses increased by approximately \$583,000, or 3.4 percent, over the last fiscal year. This limited increase resulted from the annual 3 percent wage increase contained in the Township's labor agreements, as well as the continued growth of Independence Township and related demand for various services by the community.



# Charter Township of Independence

## Management's Discussion and Analysis (Continued)

### Business-type Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior year:

	2004	2005	2006	Change from Prior Year	
				Amount	Percent
<b>Assets</b>					
Current assets	\$ 11,981,532	\$ 12,729,340	\$ 10,788,099	\$ (1,941,241)	(15.3)
Capital assets	44,381,665	64,075,945	67,164,455	3,088,510	4.8
Other noncurrent assets	2,199,662	609,599	472,014	(137,585)	(22.6)
Total assets	58,562,859	77,414,884	78,424,568	1,009,684	1.3
<b>Liabilities</b>					
Current liabilities	1,425,000	2,126,357	1,598,890	(527,467)	(24.8)
Long-term liabilities	1,845,079	16,841,428	18,225,000	1,383,572	8.2
Total liabilities	3,270,079	18,967,785	19,823,890	856,105	4.5
<b>Net Assets</b>					
Invested in capital assets - Net of related debt	42,458,452	46,419,517	48,079,455	1,659,938	3.6
Restricted	2,118,218	609,599	472,014	(137,585)	(22.6)
Unrestricted	10,716,110	11,417,983	10,049,209	(1,368,774)	(12.0)
Total net assets	<u>\$ 55,292,780</u>	<u>\$ 58,447,099</u>	<u>\$ 58,600,678</u>	<u>\$ 153,579</u>	0.3
	2004	2005	2006	Change from Prior Year	
				Amount	Percent
<b>Changes in Net Assets</b>					
Operating revenue	\$ 4,237,600	\$ 4,912,794	\$ 5,085,861	\$ 173,067	3.5
Operating expenses, before depreciation	4,715,634	4,844,006	4,462,021	(381,985)	(7.9)
<b>Operating Income (Loss) - Before depreciation</b>	(478,034)	68,788	623,840	555,052	806.9
<b>Depreciation Expense</b>	1,830,089	1,950,136	2,445,556	495,420	25.4
<b>Operating Loss</b>	(2,308,123)	(1,881,348)	(1,821,716)	59,632	(3.2)
<b>Nonoperating Revenue</b>	197,897	122,946	188,861	65,915	53.6
<b>Capital Contributions</b>	5,258,118	4,912,721	1,786,434	(3,126,287)	(63.6)
<b>Change in Net Assets</b>	<u>\$ 3,147,892</u>	<u>\$ 3,154,319</u>	<u>\$ 153,579</u>	<u>\$ (3,000,740)</u>	(95.1)

# **Charter Township of Independence**

## **Management's Discussion and Analysis (Continued)**

The Township's business-type activities consist of the Water and Sewer Funds. The Township provides water to the residents using a community well system owned, operated, and maintained by the Township. The Township provides sewage treatment through the Clinton-Oakland sewage system. In 2006, the results of operating revenue and expenditures in the water and sewer systems demonstrate that the charges are consistent with the current expenses of operating these systems. This is due to increases in the rates over the past few years to provide for a breakeven in the operating category. As with prior years, a major source of growth in the water and sewer systems was water and sewer lines contributed by developers. During fiscal 2006, developers contributed approximately \$1.1 million of water and sewer lines to the Township.

### **The Township's Funds**

Our analysis of the Township's major funds begins on pages 11 and 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2006 include the General Fund, Police Millage Fund, Fire Millage Fund, Library Fund, Parks and Recreation Fund, and the Safety Paths Millage Fund.

The General Fund pays for the Township's governmental services. The most significant expenditure of the General Fund is a transfer to support the Parks and Recreation Fund. Parks and Recreation charges for participation in many of the programs it offers; however, these charges do not cover all costs. Also, there are some programs and activities of Parks and Recreation for which the participants are not charged.

### **General Fund Budgetary Highlights**

Over the course of the year, Township administration and the Township board monitor and amend the budget to take into account unanticipated events that occur during the year. At year end, actual General Fund revenues were approximately \$255,000 over budget, primarily due to the Township's very conservative budgeting for revenues. Expenditures were approximately \$73,000 over budget, primarily resulting from expenditures on the Sashabaw Road construction project.

### **Capital Asset and Debt Administration**

At the end of 2006, the Township had approximately \$81.5 million invested in a broad range of capital assets, including land, building, fire equipment, safety paths, and water and sewer lines. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Oakland County Road Commission, along with the responsibility to maintain them.

# **Charter Township of Independence**

## **Management's Discussion and Analysis (Continued)**

The most significant increase in capital assets for the Township are from the business-type activities, which experienced its largest increase in capital assets in the utility system. Approximately half of this increase to the utility system resulted from contributions from developers. In these cases, the Township did not have a direct cost associated with the installation of the utilities but does have the responsibility to operate and maintain them. In addition, the utility system has begun a large capital improvement utilizing the Drinking Water Revolving Fund (DWRP) grants, which allow the Township to repay the cost of the project over 20 years at a low interest rate.

### **Economic Factors and Next Year's Budget and Rates**

Independence Township (population 32,581) is primarily a residential community located in northern Oakland County, Michigan. The assessed value has been healthy over the past several years, increasing at an annual average rate of 7.19 percent between 2003 and 2006. There has been a significant reduction in the rate of increase in 2007 to 3.6 percent, resulting in an assessed value of \$1.7 billion. The assessed value increase exhibited in prior years was mainly due to the development of vacant land and new housing starts which began to decline in late 2005 and has continued into 2007. While the Township has been experiencing declining residential construction, retail/commercial construction has increased. Independence Township has been chosen as the site of a new McLaren Health System development which will help spur additional retail investment.

In 2007, the Township established a Tax Increment Financing Authority (TIFA), known as a Corridor Improvement Authority (CIA). As a result of this, a portion of the property taxes collected for the Township along with the County will be captured for projects specifically identified for the area included in the CIA. The CIA is in place for the area of most significant retail development. It is anticipated that the improvements will be funded by the capture of taxes and encourage retail growth in this area.

Revenue sharing remains the most significant budgetary concern at this time. The State of Michigan is experiencing significant structural budget problems, and as it looks for solutions, revenue sharing has dwindled. The governor's current budget calls for a level funding for state revenue-sharing payments. These levels continue to be below earlier levels.

### **Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# Charter Township of Independence

## Statement of Net Assets December 31, 2006

	Primary Government			Component
	Governmental	Business-type		Unit - Downtown
	Activities	Activities	Total	Development
				Authority
<b>Assets</b>				
Cash and investments (Note 3)	\$ 13,289,070	\$ 9,316,823	\$ 22,605,893	\$ 34,021
Receivables - Net:				
Property taxes	8,182,453	-	8,182,453	-
Customers	-	1,089,954	1,089,954	-
Special assessments	1,501,936	380,803	1,882,739	-
Due from other governmental units	16,862	-	16,862	-
Other	1,299,113	519	1,299,632	-
Restricted assets (Note 9)	-	472,014	472,014	-
Capital assets - Net (Note 5):				
Depreciable	11,839,020	66,417,126	78,256,146	-
Nondepreciable	3,008,746	747,329	3,756,075	-
Total assets	39,137,200	78,424,568	117,561,768	34,021
<b>Liabilities</b>				
Accounts payable	933,273	572,812	1,506,085	2,519
Due to other governmental units	12,435	-	12,435	-
Accrued and other liabilities	267,253	166,078	433,331	-
Deferred revenue (Note 7)	11,675,978	-	11,675,978	-
Noncurrent liabilities (Note 8):				
Compensated absences:				
Due within one year	25,500	-	25,500	-
Due in more than one year	291,430	-	291,430	-
Long-term debt:				
Due within one year	471,368	860,000	1,331,368	-
Due in more than one year	876,266	18,225,000	19,101,266	-
Total liabilities	14,553,503	19,823,890	34,377,393	2,519
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	13,500,132	48,079,455	61,579,587	-
Restricted:				
Police and fire millage	4,316,184	-	4,316,184	-
Library	833,054	-	833,054	-
Safety paths millage	1,247,923	-	1,247,923	-
Community Development Block Grant	1,876	-	1,876	-
Capital expenditures and debt service	-	472,014	472,014	-
Capital Project Funds	818,004	-	818,004	-
Unrestricted	3,866,524	10,049,209	13,915,733	31,502
Total net assets	\$ 24,583,697	\$ 58,600,678	\$ 83,184,375	\$ 31,502

# Charter Township of Independence

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 2,698,114	\$ 63,675	\$ 19,925	\$ -
Public safety	9,116,398	1,120,183	20,808	-
Public works	607,654	18,859	-	660,634
Public services	1,439,503	1,082,385	25,079	-
Health and welfare	107,200	46,058	-	-
Recreation and culture	3,740,799	1,017,435	107,544	-
Interest on long-term debt	57,406	-	-	-
Total governmental activities	17,767,074	3,348,595	173,356	660,634
Business-type activities:				
Water	3,621,255	2,771,656	44,827	731,674
Sewer	3,713,146	2,269,381	-	1,054,760
Total business-type activities	7,334,401	5,041,037	44,827	1,786,434
Total primary government	<u>\$ 25,101,475</u>	<u>\$ 8,389,632</u>	<u>\$ 218,183</u>	<u>\$ 2,447,068</u>
Component unit - Downtown Development Authority				
	<u>\$ 27,718</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year (as restated)				
Net Assets - End of year				

**Statement of Activities**  
**Year Ended December 31, 2006**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component
			Unit -
			Downtown
Governmental	Business-type		Development
Activities	Activities	Total	Authority
\$ (2,614,514)	\$ -	\$ (2,614,514)	\$ -
(7,975,407)	-	(7,975,407)	-
71,839	-	71,839	-
(332,039)	-	(332,039)	-
(61,142)	-	(61,142)	-
(2,615,820)	-	(2,615,820)	-
(57,406)	-	(57,406)	-
(13,584,489)	-	(13,584,489)	-
-	(73,098)	(73,098)	-
-	(389,005)	(389,005)	-
-	(462,103)	(462,103)	-
(13,584,489)	(462,103)	(14,046,592)	-
-	-	-	(27,718)
11,050,191	-	11,050,191	-
2,427,673	-	2,427,673	-
649,538	615,682	1,265,220	2,485
362,087	-	362,087	-
75,212	-	75,212	9,030
14,564,701	615,682	15,180,383	11,515
980,212	153,579	1,133,791	(16,203)
23,603,485	58,447,099	82,050,584	47,705
<b>\$ 24,583,697</b>	<b>\$ 58,600,678</b>	<b>\$ 83,184,375</b>	<b>\$ 31,502</b>

# Charter Township of Independence

	General	Police Millage	Fire Millage	Library
<b>Assets</b>				
Cash and investments	\$ 2,659,503	\$ 2,516,175	\$ 3,874,761	\$ 1,221,235
Receivables - Net:				
Property taxes	1,206,259	2,310,559	3,266,424	777,015
Due from other governments	-	-	-	-
Special assessments and other	562,774	31,507	150,155	-
Deposits on equipment	-	-	1,062,631	-
Due from other funds	418,882	-	-	-
Total assets	<u>\$ 4,847,418</u>	<u>\$ 4,858,241</u>	<u>\$ 8,353,971</u>	<u>\$ 1,998,250</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 173,190	\$ 572,478	\$ 78,960	\$ 6,060
Due to other governmental units	12,435	-	-	-
Accrued and other liabilities	100,576	2,000	74,595	21,128
Due to other funds	160	-	-	-
Deferred revenue	1,763,783	3,384,022	4,783,973	1,138,008
Total liabilities	2,050,144	3,958,500	4,937,528	1,165,196
<b>Fund Balances</b>				
Reserved for (Note 1):				
Debt service	-	-	-	-
Cemetery care	-	-	-	-
Unreserved, designated for capital outlay	-	-	1,062,631	-
Unreserved, reported in:				
General Fund	2,797,274	-	-	-
Special Revenue Funds	-	899,741	2,353,812	833,054
Debt Service Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
Total fund balances	<u>2,797,274</u>	<u>899,741</u>	<u>3,416,443</u>	<u>833,054</u>
Total liabilities and fund balances	<u>\$ 4,847,418</u>	<u>\$ 4,858,241</u>	<u>\$ 8,353,971</u>	<u>\$ 1,998,250</u>

**Governmental Funds  
Balance Sheet  
December 31, 2006**

<u>Parks and Recreation</u>	<u>Safety Paths Millage</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 50,300	\$ 1,513,308	\$ 1,453,788	\$ 13,289,070
-	413,899	136,593	8,110,749
-	-	16,862	16,862
-	-	757,500	1,501,936
-	-	-	1,062,631
-	-	160	419,042
<u>\$ 50,300</u>	<u>\$ 1,927,207</u>	<u>\$ 2,364,903</u>	<u>\$ 24,400,290</u>
\$ 22,041	\$ 69,635	\$ 10,909	\$ 933,273
-	-	-	12,435
40,566	3,457	241	242,563
-	-	418,882	419,042
-	606,192	772,311	12,448,289
62,607	679,284	1,202,343	14,055,602
-	-	149,499	149,499
-	-	469,803	469,803
-	-	-	1,062,631
-	-	-	2,797,274
(12,307)	1,247,923	68,598	5,390,821
-	-	(181,248)	(181,248)
-	-	655,908	655,908
(12,307)	1,247,923	1,162,560	10,344,688
<u>\$ 50,300</u>	<u>\$ 1,927,207</u>	<u>\$ 2,364,903</u>	<u>\$ 24,400,290</u>



# Charter Township of Independence

## **Governmental Funds Reconciliation of Governmental Fund Balances to Net Assets December 31, 2006**

**Fund Balances - Total Governmental Funds** \$ 10,344,688

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds 14,847,766

Long-term liabilities and related accrued interest expense are not due and payable in the current period and are not reported in the funds (1,372,324)

Compensated absences are included as a liability in governmental activities (316,930)

Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures 772,311

Delinquent personal property taxes are not recognized as revenue in the funds until received; the government-wide statements recognize an estimate of the amount that will ultimately be collected 71,704

Expenses are normally expensed when paid in the funds; the government-wide statements allocate prepaid expenses over future periods 236,482

**Net Assets of Governmental Activities** \$ 24,583,697

# Charter Township of Independence

	General	Police Millage	Fire Millage	Library
<b>Revenue</b>				
Property taxes	\$ 1,567,800	\$ 3,162,555	\$ 4,621,578	\$ 1,063,531
Licenses and permits	961,176	-	-	-
Federal grants	-	31,507	-	-
State-shared and other grants	2,447,598	24,303	-	76,698
Charges for services	131,415	267,658	645,797	35,247
Fines and forfeitures	-	113,884	25,377	20,484
Special assessments	-	-	-	-
Interest and rentals	165,700	101,145	128,916	53,106
Other	688,615	152	30,888	38,279
Total revenue	5,962,304	3,701,204	5,452,556	1,287,345
<b>Expenditures</b>				
Current:				
General government	2,831,009	-	-	-
Public safety	-	4,199,884	4,535,661	-
Public works	-	-	-	-
Public services	1,399,882	-	-	-
Recreation and culture	-	-	-	1,340,627
Capital outlay	33,464	-	63,316	-
Debt service	-	-	197,462	-
Total expenditures	4,264,355	4,199,884	4,796,439	1,340,627
<b>Excess of Revenue Over (Under) Expenditures</b>	1,697,949	(498,680)	656,117	(53,282)
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	-	-
Transfers out	(1,196,785)	-	-	-
Proceeds from the issuance of debt	-	-	710,000	-
Sales of capital assets	-	-	1,975	-
Total other financing sources (uses)	(1,196,785)	-	711,975	-
<b>Net Change in Fund Balances</b>	501,164	(498,680)	1,368,092	(53,282)
<b>Fund Balances - Beginning of year (as restated)</b>	2,296,110	1,398,421	2,048,351	886,336
<b>Fund Balances - End of year</b>	<u>\$ 2,797,274</u>	<u>\$ 899,741</u>	<u>\$ 3,416,443</u>	<u>\$ 833,054</u>

**Governmental Funds**

**Statement of Revenue, Expenditures, and Changes in Fund Balances**  
**Year Ended December 31, 2006**

Parks and Recreation	Safety Paths Millage	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 585,757	\$ -	\$ 11,001,221
-	-	-	961,176
-	-	24,218	55,725
30,846	-	-	2,579,445
923,054	-	-	2,003,171
-	-	-	159,745
-	-	182,949	182,949
22,214	55,681	137,940	664,702
-	12,727	2,001	772,662
976,114	654,165	347,108	18,380,796
-	-	-	2,831,009
-	-	-	8,735,545
-	402,789	-	402,789
-	-	27,079	1,426,961
2,344,377	-	50,623	3,735,627
-	-	16,164	112,944
-	-	79,280	276,742
2,344,377	402,789	173,146	17,521,617
(1,368,263)	251,376	173,962	859,179
1,005,500	-	191,285	1,196,785
-	-	-	(1,196,785)
-	-	-	710,000
-	-	-	1,975
1,005,500	-	191,285	711,975
(362,763)	251,376	365,247	1,571,154
350,456	996,547	797,313	8,773,534
<b>\$ (12,307)</b>	<b>\$ 1,247,923</b>	<b>\$ 1,162,560</b>	<b>\$ 10,344,688</b>

# Charter Township of Independence

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2006**

**Net Change in Fund Balances - Total Governmental Funds** \$ 1,571,154

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation (472,869)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end 447,109

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33) (5,182)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 219,336

Proceeds from the issuance of debt are reported as revenue in the governmental funds, but not in the statement of activities (where proceeds increase long-term debt) (710,000)

Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities (69,336)

**Change in Net Assets of Governmental Activities** \$ 980,212

# Charter Township of Independence

## Proprietary Funds Statement of Net Assets December 31, 2006

	Water	Sewer	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 5,066,169	\$ 4,250,654	\$ 9,316,823
Receivables:			
Customer usage	510,275	579,679	1,089,954
Special assessments and other	156,099	225,223	381,322
Due from other funds	-	202,966	202,966
Total current assets	5,732,543	5,258,522	10,991,065
Noncurrent assets:			
Restricted assets	-	472,014	472,014
Capital assets	43,174,823	23,989,632	67,164,455
Total noncurrent assets	43,174,823	24,461,646	67,636,469
Total assets	48,907,366	29,720,168	78,627,534
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	89,925	482,887	572,812
Accrued and other liabilities	29,201	136,877	166,078
Due to other funds	202,966	-	202,966
Current portion of long-term debt	860,000	-	860,000
Total current liabilities	1,182,092	619,764	1,801,856
Noncurrent liability - Long-term debt -			
Net of current portion	18,225,000	-	18,225,000
Total liabilities	19,407,092	619,764	20,026,856
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	24,089,823	23,989,632	48,079,455
Restricted	-	472,014	472,014
Unrestricted	5,410,451	4,638,758	10,049,209
Total net assets	<u>\$ 29,500,274</u>	<u>\$ 29,100,404</u>	<u>\$ 58,600,678</u>

# Charter Township of Independence

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2006

	Water	Sewer	Total
<b>Operating Revenue</b>			
Customer usage charges	\$ 2,320,889	\$ 2,121,940	\$ 4,442,829
Meters and installation charges	97,763	-	97,763
Other services and charges	397,828	147,441	545,269
Total operating revenue	2,816,480	2,269,381	5,085,861
<b>Operating Expenses</b>			
Cost of sewage treatment	-	1,579,001	1,579,001
Personnel services	627,148	502,931	1,130,079
Supplies	63,183	111,175	174,358
Depreciation	1,354,898	1,090,658	2,445,556
Other services and charges	1,149,202	429,381	1,578,583
Total operating expenses	3,194,431	3,713,146	6,907,577
<b>Operating Loss</b>	(377,951)	(1,443,765)	(1,821,716)
<b>Nonoperating Revenue (Expense)</b>			
Investment income	331,971	283,711	615,682
Interest expense	(426,821)	-	(426,821)
<b>Loss - Before contributions</b>	(472,801)	(1,160,054)	(1,632,855)
<b>Capital Contributions</b>			
Special assessments	-	22,518	22,518
Capital charge/Tap-in fees	373,144	292,612	665,756
Lines constructed by developers	358,530	739,630	1,098,160
Total capital contributions	731,674	1,054,760	1,786,434
<b>Change in Net Assets</b>	258,873	(105,294)	153,579
<b>Net Assets - Beginning of year</b>	29,241,401	29,205,698	58,447,099
<b>Net Assets - End of year</b>	<u>\$ 29,500,274</u>	<u>\$ 29,100,404</u>	<u>\$ 58,600,678</u>

# Charter Township of Independence

## Proprietary Funds Statement of Cash Flows Year Ended December 31, 2006

	Water	Sewer	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 2,791,221	\$ 2,280,368	\$ 5,071,589
Payments to suppliers	(2,093,795)	(1,821,825)	(3,915,620)
Payments to employees	(618,944)	(499,924)	(1,118,868)
Net cash provided by (used in) operating activities	78,482	(41,381)	37,101
<b>Cash Flows from Capital and Related Financing Activities</b>			
Collection of customer assessments (principal and interest)	500,799	553,936	1,054,735
Purchase of capital assets	(3,471,676)	(1,374,685)	(4,846,361)
Drawdowns on DWRP bonds	2,243,573	-	2,243,573
Principal and interest paid on capital debt	(1,241,819)	-	(1,241,819)
Net cash used in capital and related financing activities	(1,969,123)	(820,749)	(2,789,872)
<b>Cash Flows from Investing Activities - Interest received on investments</b>	331,971	283,711	615,682
<b>Net Decrease in Cash and Cash Equivalents</b>	(1,558,670)	(578,419)	(2,137,089)
<b>Cash and Cash Equivalents - Beginning of year</b>	6,621,410	4,829,073	11,450,483
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 5,062,740</u>	<u>\$ 4,250,654</u>	<u>\$ 9,313,394</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents - Cash and cash equivalents</b>	<u>\$ 5,066,169</u>	<u>\$ 4,250,654</u>	<u>\$ 9,316,823</u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>			
Operating loss	\$ (377,951)	\$ (1,443,765)	\$ (1,821,716)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	1,354,898	1,090,658	2,445,556
Changes in assets and liabilities:			
Receivables	(25,259)	10,987	(14,272)
Other assets	-	-	-
Accounts payable	(881,410)	297,732	(583,678)
Accrued and other liabilities	8,204	3,007	11,211
Net cash provided by (used in) operating activities	<u>\$ 78,482</u>	<u>\$ (41,381)</u>	<u>\$ 37,101</u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended December 31, 2006, the Water and Sewer Funds received \$1,098,160 of lines donated by a developer.

# Charter Township of Independence

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## **Fiduciary Funds Statement of Assets and Liabilities December 31, 2006**

### **Assets**

Cash and cash equivalents	\$ 2,429,236
Delinquent taxes receivable	<u>44,220</u>
Total assets	<u><b>\$ 2,473,456</b></u>

### **Liabilities**

Accrued and other liabilities	\$ 231,522
Due to other governmental units	1,332,183
Cash bonds and deposits	<u>909,751</u>
Total liabilities	<u><b>\$ 2,473,456</b></u>



# Charter Township of Independence

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**Notes to Financial Statements  
December 31, 2006**

## **Note I - Summary of Significant Accounting Policies**

The accounting policies of the Charter Township of Independence (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Independence:

### **Reporting Entity**

The Charter Township of Independence is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township and its component unit, an entity for which the Township is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

**Discretely Presented Component Unit** - The Downtown Development Authority (the "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of nine individuals, is selected by the Township board. In addition, the DDA's budget is subject to approval by the Township board. The DDA's ability to levy taxes lapsed in 1996. In 1997, the Township board decided not to extend the life of the DDA. The remaining assets of the DDA have been earmarked for various projects still outstanding.

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from a certain legally separate component unit for which the primary government is financially accountable.

# Charter Township of Independence

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## Notes to Financial Statements December 31, 2006

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

# Charter Township of Independence

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**Notes to Financial Statements  
December 31, 2006**

## **Note I - Summary of Significant Accounting Policies (Continued)**

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

The Township reports the following major governmental funds:

**General Fund** - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

**Police Millage Fund** - The Police Millage Fund accounts for all financial resources of public safety. Activities are financed through a dedicated millage and other sources.

**Fire Millage Fund** - The Fire Millage Fund accounts for all financial resources of the fire department. Activities are financed through a dedicated millage and other sources.

**Library Fund** - The Library Fund accounts for all financial resources of the library. Activities are financed through a dedicated millage and other sources.

**Parks and Recreation Fund** - The Parks and Recreation Fund accounts for all financial resources of the Parks and Recreation Department. Activities are financed through service charges and General Fund contributions.

**Safety Paths Millage Fund** - The Safety Paths Millage Fund accounts for finances related to the construction and maintenance of sidewalks and pathways. Activities are funded through a dedicated millage and other sources.

The Township reports the following major proprietary funds:

**Water and Sewer Funds** - The Water and Sewer Funds are used to account for the provision of water and sewer services to the residents of the Township financed primarily by user charges. All activities necessary to provide such services are accounted for in these funds including, but not limited to, administration, operations, maintenance, billings, and collections.

# Charter Township of Independence

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## Notes to Financial Statements December 31, 2006

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Additionally, the Township reports the following fund type:

**Agency Funds** - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

Properties are assessed as of December 31. The related property taxes become a lien on December 1 of the following year and are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue in each respective fund at December 31.

# Charter Township of Independence

## Notes to Financial Statements December 31, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

The 2005 taxable valuation of the Township totaled \$1.541 billion. The taxes levied and the resulting revenue by fund were as follows:

	Millage Rate	Revenue
Operating millage (General Fund)	1.0200	\$ 1,567,800
Special Revenue Funds:		
Fire Millage - Operations and Advanced Life Support	3.0026	4,621,578
Library Operating	0.6910	1,063,531
Police Millage - Operations	2.0547	3,162,555
Safety Paths Millage - Construction	0.3806	585,757
Total	<u>7.1489</u>	<u>11,001,221</u>
Other - Tax collection and trailer park fees		<u>48,970</u>
Total		<u>\$ 11,050,191</u>

### Assets, Liabilities, and Net Assets or Equity

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide statements.

# Charter Township of Independence

## Notes to Financial Statements December 31, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Restricted Assets** - Township ordinance and county contracts require amounts to be set aside in the Enterprise Funds for construction and debt service principal and interest. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of the Charter Township of Independence's water and sewer lines.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sidewalks and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Land improvements	15-20 years
Safety paths	20 years
Buildings and building improvements	20-30 years
Library books	10 years
Machinery and equipment, including leased equipment	3-10 years
Office equipment	3-7 years
Vehicles	3-20 years
Utility systems	40 years

**Compensated Absences (Vacation and Sick Leave)** - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

# Charter Township of Independence

## Notes to Financial Statements December 31, 2006

### Note I - Summary of Significant Accounting Policies (Continued)

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The following is a summary of the unreserved fund balances of certain governmental funds with management's designations:

Other postemployment benefits:

General Fund	\$ 400,000
Fire Fund	400,000
Police Fund	29,000
Library Fund	455,000
Safety Path Fund	35,000
Sewer Fund	313,000
Water Fund	321,000

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

# Charter Township of Independence

## Notes to Financial Statements December 31, 2006

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - December 31, 2005		\$ (357,024)
Current year building permit revenue	\$ 430,219	
Related expenses - Direct costs	<u>(612,615)</u>	<u>(182,396)</u>
Cumulative shortfall - December 31, 2006		<u>\$ (539,420)</u>

**Fund Deficits** - The Township has accumulated fund deficits in the following individual funds: the Parks and Recreation Fund, the Community Development Block Grant Fund, the Sashabaw Road Capital Projects Fund, the Sashabaw Drain Capital Projects Fund, and the Sashabaw Drain Debt Service Fund. The deficits will be funded primarily by special assessment collections, recognition of deferred revenue, and operating transfers from other funds.

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.



# Charter Township of Independence

## Notes to Financial Statements December 31, 2006

### Note 3 - Deposits and Investments (Continued)

The Township has designated 10 banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$3,024,440 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Commercial paper	\$ 1,010,248	49.6 days
U.S. agency securities	11,791,968	5.4 years
U.S. agency pools	97,897	14.2 years
U.S. government securities	4,800,942	4.4 years

# Charter Township of Independence

## Notes to Financial Statements December 31, 2006

### Note 3 - Deposits and Investments (Continued)

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool	\$ 2,885,029	AAA	S&P
U.S. agency securities	10,526,745	AAA	S&P
U.S. agency securities	1,265,223	Not rated	N/A
U.S. agency pools	97,897	Not rated	N/A
U.S. government securities	4,800,942	AAA	S&P
U.S. government securities	482,967	Not rated	N/A
Commercial paper	347,315	A-I +	S&P
Commercial paper	316,441	A-I	S&P
Commercial paper	346,492	Not rated	N/A

### Note 4 - Defined Contribution Retirement Plan

The Township provides a defined contribution pension plan to all of its full-time employees, excluding full-time employees of the fire department, who have elected to be covered under the Municipal Employees' Retirement System of Michigan (MERS). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Township board, the Township contributes up to 10 percent of employees' gross earnings. In accordance with these requirements, the Township contributed approximately \$279,000 and the employee contributions were immaterial.

# Charter Township of Independence

## Notes to Financial Statements December 31, 2006

### Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2006	Additions	Disposals	Balance December 31, 2006
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 1,153,326	\$ -	\$ -	\$ 1,153,326
Development rights	1,000,000	-	-	1,000,000
Construction in progress	855,420	-	-	855,420
Subtotal	3,008,746	-	-	3,008,746
Capital assets being depreciated:				
Safety paths	7,035,764	154,889	-	7,190,653
Buildings and improvements	8,578,736	71,018	-	8,649,754
Land improvements	2,989,466	46,596	-	3,036,062
Vehicles	3,783,964	30,030	-	3,813,994
Office equipment	1,675,220	99,292	-	1,774,512
Library books	2,579,173	191,584	-	2,770,757
Machinery and equipment	3,052,058	18,299	-	3,070,357
Leased equipment	32,519	-	-	32,519
Subtotal	29,726,900	611,708	-	30,338,608
Accumulated depreciation:				
Safety paths	3,859,209	306,963	-	4,166,172
Buildings and improvements	3,474,188	287,165	-	3,761,353
Land improvements	2,049,124	112,986	-	2,162,110
Vehicles	2,063,776	128,127	-	2,191,903
Office equipment	1,543,548	22,520	-	1,566,068
Library books	1,570,054	195,901	-	1,765,955
Machinery and equipment	2,855,112	30,915	-	2,886,027
Subtotal	17,415,011	1,084,577	-	18,499,588
Net capital assets being depreciated	12,311,889	(472,869)	-	11,839,020
Net capital assets	\$ 15,320,635	\$ (472,869)	\$ -	\$ 14,847,766

# Charter Township of Independence

## Notes to Financial Statements December 31, 2006

### Note 5 - Capital Assets (Continued)

Business-type Activities	Balance January 1, 2006	Reclassifi- cations	Additions	Disposals	Balance December 31, 2006
Capital assets not being depreciated:					
Land	\$ 96,265	\$ -	\$ -	\$ -	\$ 96,265
Construction in progress	19,725,268	(22,867,501)	3,793,297	-	651,064
Subtotal	19,821,533	(22,867,501)	3,793,297	-	747,329
Capital assets being depreciated:					
Utility system	71,328,794	22,867,501	1,639,423	-	95,835,718
Buildings and building improvements	1,104,015	-	-	-	1,104,015
Vehicles	630,651	-	55,217	-	685,868
Office equipment	85,864	-	-	-	85,864
Machinery and equipment	1,215,158	-	46,129	-	1,261,287
Subtotal	74,364,482	22,867,501	1,740,769	-	98,972,752
Accumulated depreciation:					
Utility system	27,977,456	-	2,291,222	-	30,268,678
Buildings and building improvements	715,279	-	40,608	-	755,887
Vehicles	380,778	-	24,989	-	405,767
Office equipment	73,592	-	7,197	-	80,789
Machinery and equipment	962,965	-	81,540	-	1,044,505
Subtotal	30,110,070	-	2,445,556	-	32,555,626
Net capital assets being depreciated	44,254,412	22,867,501	(704,787)	-	66,417,126
Net capital assets	<u>\$ 64,075,945</u>	<u>\$ -</u>	<u>\$ 3,088,510</u>	<u>\$ -</u>	<u>\$ 67,164,455</u>

# Charter Township of Independence

## Notes to Financial Statements December 31, 2006

### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 70,219
Public safety	269,999
Public works	330,943
Public services	2,794
Recreation and culture	<u>410,620</u>
Total governmental activities	<u><u>\$ 1,084,575</u></u>
Business-type activities:	
Water	\$ 1,354,898
Sewer	<u>1,090,658</u>
Total business-type activities	<u><u>\$ 2,445,556</u></u>

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Sashabaw paving	\$ 56,126
General Fund	Deerwood 8 and 9	13,732
General Fund	Deerwood Manor	78,111
General Fund	Woodhull	45,110
General Fund	Simler Drive	42,985
General Fund	Sashabaw drain	182,818
Sewer Fund	Water Fund	202,966
Other governmental funds	General Fund	<u>160</u>
Total		<u><u>\$ 622,008</u></u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

# Charter Township of Independence

## Notes to Financial Statements December 31, 2006

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Parks and Recreation Fund	\$ 1,005,500
General Fund	Capital Projects Fund	181,875
General Fund	Thendara Road Debt Service Fund	<u>9,410</u>
Total		<u>\$ 1,196,785</u>

Transfers between the various funds represent payment from one fund to another without an equivalent return of goods or services to fund operations and projects accounted for in the respective funds.

The Township transferred funds from the General Fund to the Parks and Recreation Fund to help cover operating expenses of the Parks and Recreation Fund that are not covered by the charges for services.

### Note 7 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. All funds and governmental and business-type activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes	\$ -	\$ 11,675,978
Special assessments	757,450	
CDBG	<u>14,861</u>	<u>-</u>
Total	<u>\$ 772,311</u>	<u>\$ 11,675,978</u>

# Charter Township of Independence

## Notes to Financial Statements December 31, 2006

### Note 8 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
Special assessment bonds:						
Bow Pointe Bond Issue Series 1996-B:						
Amount of issue: \$490,000	5.0% -					
Maturing through 2010	5.60%	\$40,000	\$ 195,000	\$ (35,000)	\$ 160,000	\$ 40,000
Townsend Lake Bond Issue Series 1998-A:						
Amount of issue: \$375,000	4.0% -	\$25,000 -				
Maturing through 2013	4.85%	\$30,000	225,000	(25,000)	200,000	25,000
Total special assessment bonds			420,000	(60,000)	360,000	65,000
Installment purchase agreement - LsSalle Bank						
Amount of issue: \$710,000		\$220,000 -				
Maturing through 2009	4.06%	\$255,000	-	710,000	710,000	220,000
General obligation bonds - Firststar Leasing Services Corp.:						
Amount of issue: \$1,700,000	4.79%	\$96,545 -				
Maturing through 2008		\$186,368	455,386	(177,752)	277,634	186,368
Total general obligation bonds, installment purchase agreements, and special assessment bonds			875,386	472,248	1,347,634	471,368
Other long-term obligations -						
Accumulated employee benefits			247,594	69,336	316,930	25,500
Total governmental activities			1,122,980	541,584	1,664,564	496,868

# Charter Township of Independence

## Notes to Financial Statements December 31, 2006

### Note 8 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Business-type Activities</b>						
General obligation bond:						
DEQ - Drinking Water Revolving Fund:						
Amount of issue: \$18,625,000		\$770,000 -				
Maturing through 2024	2.125%	\$1,130,000	\$ 15,656,428	\$ 1,498,572	\$ 17,155,000	\$ 790,000
Capital Improvement Bonds Series 2005-B:						
Amount of issue: \$2,000,000	3.90% -	\$70,000 -				
Maturing through 2025	4.25%	\$145,000	2,000,000	(70,000)	1,930,000	70,000
Total business-type activities			17,656,428	1,428,572	19,085,000	860,000
Total governmental activities and business-type activities			\$ 18,779,408	\$ 1,970,156	\$ 20,749,564	\$ 1,356,868

Special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of improvements. At December 31, 2006, the Township has \$143,191 set aside in Debt Service Funds for repayment of these bonds. In addition, there is \$757,500 of special assessments receivable in the future; the amount of receivables delinquent at December 31, 2006 is not significant.

The Township has pledged its full faith and credit for the Enterprise Fund contractual obligations with the county. These obligations are collateralized primarily by certain sewer special assessments. At December 31, 2006, the Township has \$472,014 set aside as restricted assets in the Enterprise Funds for repayment of these contractual obligations, Enterprise Fund special assessment bonds, and construction projects. These restricted assets include \$479,182 of special assessments receivable in the future; the amount of Enterprise Fund receivables delinquent at December 31, 2006 is not significant.



# Charter Township of Independence

## Notes to Financial Statements December 31, 2006

### Note 8 - Long-term Debt (Continued)

#### Debt Service Requirements

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 471,368	\$ 56,173	\$ 527,541	\$ 860,000	\$ 440,406	\$ 1,300,406
2008	391,266	35,119	426,385	880,000	420,296	1,300,296
2009	325,000	20,000	345,000	895,000	400,265	1,295,265
2010	70,000	6,078	76,078	925,000	379,915	1,304,915
2011	30,000	3,578	33,578	940,000	358,839	1,298,839
2012-2016	60,000	2,895	62,895	5,045,000	1,462,570	6,507,570
2017-2021	-	-	-	5,640,000	859,740	6,499,740
2022-2025	-	-	-	3,900,000	203,058	4,103,058
Total	<u>\$ 1,347,634</u>	<u>\$ 123,843</u>	<u>\$ 1,471,477</u>	<u>\$ 19,085,000</u>	<u>\$ 4,525,089</u>	<u>\$ 23,610,089</u>

### Note 9 - Restricted Assets

Specific assets of the Sewer Disposal System Fund have been restricted for debt service and construction projects by Township ordinance and county contracts. Following is the detail of restricted assets as of December 31, 2006:

Cash and investments	\$ 951,196
Accounts receivable - Special assessments	<u>(479,182)</u>
Total Sewer Fund restricted assets	<u>\$ 472,014</u>

### Note 10 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to general liability and property, unemployment compensation, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

# Charter Township of Independence

## Notes to Financial Statements December 31, 2006

### Note 11 - Defined Benefit Pension Plan

#### Plan Description

The Township contributes to the Municipal Employees' Retirement System of Michigan (the "System"), an agent multiple-employer defined benefit pension plan that covers only full-time fire employees of the Township. The System provides retirement benefits, as well as death and disability benefits. The Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

#### Funding Policy

The obligation to contribute to and maintain the System for these employees was established by negotiation with the Township's collective bargaining units and requires contributions from the employees of the Township.

#### Annual Pension Cost

For the year ended December 31, 2006, the Township's annual pension cost of \$215,782 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using an entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) an additional projected salary increase of 0 percent to 8.4 percent per year, attributable to seniority/merit. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period.

The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

	Fiscal Year Ended December 31		
	2004	2005	2006
Annual pension costs (APC)	\$ 166,412	\$ 219,776	\$ 215,782
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

# Charter Township of Independence

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## Notes to Financial Statements December 31, 2006

### **Note 12 - Upcoming Reporting Change**

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postretirement Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

### **Note 13 - Prior Period Adjustment**

The beginning of year fund balance in the Sashabaw Road Capital Projects Fund was restated to reflect an increase of \$260,000. This increase relates to an estimated invoice that was recorded in the Sashabaw Road Capital Projects Fund in 2005. During 2006, new information became available that led management to record the invoice in the General Fund. As a result, beginning fund balance in the Sashabaw Road Capital Projects Fund was restated to reflect an increase of \$260,000 while the beginning fund balance in the General Fund was restated to reflect a decrease of \$218,515, the actual amount of the invoice.

## **Required Supplemental Information**

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# Charter Township of Independence

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 1,572,300	\$ 1,572,300	\$ 1,567,800	\$ (4,500)
Licenses and permits	1,189,500	1,189,500	961,176	(228,324)
State-shared revenue	2,050,000	2,050,000	2,447,598	397,598
Charges for services	22,500	22,500	30,885	8,385
Interest earnings and rent	180,000	180,000	165,700	(14,300)
Other	532,500	532,500	688,615	156,115
Charges to other funds	100,530	100,530	100,530	-
Total revenue	5,647,330	5,647,330	5,962,304	314,974
<b>Expenditures</b>				
General government:				
Township board	506,150	506,150	478,594	27,556
Supervisor	272,600	272,600	295,394	(22,794)
Elections	174,200	174,200	152,805	21,395
Assessing	529,130	529,130	525,991	3,139
Legal	250,000	250,000	183,218	66,782
Clerk	436,300	436,300	423,616	12,684
Board of Review	5,850	5,850	10,748	(4,898)
Treasurer	339,897	342,247	322,385	19,862
Data processing	96,495	96,495	81,688	14,807
Township hall	221,160	221,160	197,159	24,001
Facilities maintenance	126,750	126,750	73,760	52,990
Fringe benefits	125,000	125,000	107,137	17,863
Public services:				
Cemetery	116,800	209,950	147,306	62,644
Building	1,301,400	1,301,400	1,159,560	141,840
Street lights	100,000	100,000	84,649	15,351
Drains	50,000	50,000	20,345	29,655
Transfers to other funds	1,005,500	1,196,785	1,196,785	-
Total expenditures	5,657,232	5,944,017	5,461,140	482,877
<b>Surplus (Shortfall)</b>	<b>\$ (9,902)</b>	<b>\$ (296,687)</b>	<b>\$ 501,164</b>	<b>\$ 797,851</b>

# Charter Township of Independence

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Police Millage Fund</b>				
Revenues	\$ 3,542,159	\$ 3,542,159	\$ 3,701,204	\$ 159,045
Expenditures	3,546,830	3,546,830	4,199,884	(653,054)
<b>Fire Millage Fund</b>				
Revenues	5,434,800	6,144,800	6,164,531	19,731
Expenditures	5,601,400	6,311,400	4,796,439	1,514,961
<b>Library</b>				
Revenues	1,237,600	1,237,600	1,287,345	49,745
Expenditures	1,237,600	1,237,600	1,340,629	(103,029)
<b>Parks and Recreation</b>				
Revenues	1,882,900	1,882,900	1,981,614	98,714
Expenditures	2,244,900	2,244,900	2,344,375	(99,475)
<b>Safety Paths Millage Fund</b>				
Revenues	596,700	596,700	654,165	57,465
Expenditures	259,480	259,480	402,789	(143,309)

# Charter Township of Independence

## Required Supplemental Information Pension System Schedule of Funding Progress and Employer Contributions Year Ended December 31, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<b>Fire Employees Retirement System</b>						
12/31/03	\$ 2,262,506	\$ 2,653,894	\$ 391,388	85	\$ 1,437,292	27
12/31/04	2,705,189	3,732,524	1,027,335	72	1,856,587	55
12/31/05	3,107,842	4,482,275	1,374,433	69	2,104,044	65

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
12/31/04	12/31/02	166,412	100.0
12/31/05	12/31/03	219,776	100.0
12/31/06	12/31/04	215,782	100.0

\* The required contribution is expressed to the Township as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2005, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent
Amortization period (perpetual)	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5%
Additional projected salary increases - Seniority and merit	0.0% to 8.40%
*Includes inflation at	4.5%
Cost of living adjustments	None

# Charter Township of Independence

## Note to Required Supplemental Information Year Ended December 31, 2006

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds, except that operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).” All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level. Each Special Revenue Fund represents a separate department.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Charter Township of Independence incurred expenditures that were in excess of the amounts budgeted in the following Major Special Revenue Funds:

	Budget	Actual	Variance
Police Milage Fund	\$ 3,546,830	\$ 4,199,884	\$ (653,054)
Library Fund	1,237,600	1,340,629	(103,029)
Parks and Recreation Fund	2,244,900	2,344,375	(99,475)
Safety Paths Fund	259,480	402,789	(143,309)



## **Other Supplemental Information**

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# Charter Township of Independence

	Capital Projects	General Debt Debt Service	Special Assessments* Various*
<b>Assets</b>			
Cash and investments	\$ 439	\$ 4,498	\$ 902,676
Receivables - Net:			
Property taxes	-	-	136,593
Due from other governments	-	-	-
Special assessments and other	-	-	757,500
Due from other funds	-	-	160
Total assets	<u>\$ 439</u>	<u>\$ 4,498</u>	<u>\$ 1,796,929</u>
<b>Liabilities and Fund Balances (Deficit)</b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ -	\$ 1,375
Accrued and other liabilities	-	-	-
Due to other funds	-	-	418,882
Deferred revenue	-	-	757,450
Total liabilities	-	-	1,177,707
<b>Fund Balances (Deficit)</b>			
Reserved for:			
Debt Service	-	-	149,499
Cemetery Perpetual Care	-	-	-
Unreserved, reported in:			
Special Revenue Funds	-	-	-
Debt Service Funds	-	4,498	(185,746)
Capital Projects Funds	439	-	655,469
Total fund balances (deficit)	<u>439</u>	<u>4,498</u>	<u>619,222</u>
Total liabilities and fund balances (deficit)	<u>\$ 439</u>	<u>\$ 4,498</u>	<u>\$ 1,796,929</u>

\* Detail by special assessment fund is reported on subsequent pages

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2006**

Pension Stabilization	Community Development Block Grant Special Revenue	Cable Television	Cemetery Permanent	Total Other Governmental Funds
\$ 6,254	\$ (12,986)	\$ 83,104	\$ 469,803	\$ 1,453,788
-	-	-	-	136,593
-	16,862	-	-	16,862
-	-	-	-	757,500
-	-	-	-	160
<b>\$ 6,254</b>	<b>\$ 3,876</b>	<b>\$ 83,104</b>	<b>\$ 469,803</b>	<b>\$ 2,364,903</b>
\$ -	\$ 2,000	\$ 7,534	\$ -	\$ 10,909
-	-	241	-	241
-	-	-	-	418,882
-	14,861	-	-	772,311
-	16,861	7,775	-	1,202,343
-	-	-	-	149,499
-	-	-	469,803	469,803
6,254	(12,985)	75,329	-	68,598
-	-	-	-	(181,248)
-	-	-	-	655,908
6,254	(12,985)	75,329	469,803	1,162,560
<b>\$ 6,254</b>	<b>\$ 3,876</b>	<b>\$ 83,104</b>	<b>\$ 469,803</b>	<b>\$ 2,364,903</b>

# Charter Township of Independence

	Capital Projects	General Debt Debt Service	Special Assessments* Various*
<b>Revenue</b>			
Federal grants	\$ -	\$ -	\$ -
Special assessments	-	-	182,949
Interest and rentals	-	215	109,139
Other	-	-	-
Total revenue	-	215	292,088
<b>Expenditures</b>			
Current - Recreation and culture	-	-	-
Public services	-	-	-
Capital outlay	-	-	16,164
Debt service	-	-	79,280
Total expenditures	-	-	95,444
<b>Excess of Revenue Over (Under)</b>			
<b>Expenditures</b>	-	215	196,644
<b>Other Financing Sources - Transfers in</b>	181,875	-	9,410
<b>Net Change in Fund Balances</b>	181,875	215	206,054
<b>Fund Balances (Deficit) - Beginning of year</b> (as restated)	(181,436)	4,283	413,168
<b>Fund Balances (Deficit) - End of year</b>	<u>\$ 439</u>	<u>\$ 4,498</u>	<u>\$ 619,222</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**In Fund Balances (Deficit) - Nonmajor Governmental Funds**  
**Year Ended December 31, 2006**

Pension Stabilization	Community Development Block Grant Special Revenue	Cable Television	Cemetery Permanent	Total Other Governmental Funds
\$ -	\$ 24,218	\$ -	\$ -	\$ 24,218
-	-	-	-	182,949
-	-	6,061	22,525	137,940
-	2,001	-	-	2,001
-	26,219	6,061	22,525	347,108
-	-	50,623	-	50,623
-	27,079	-	-	27,079
-	-	-	-	16,164
-	-	-	-	79,280
-	27,079	50,623	-	173,146
-	(860)	(44,562)	22,525	173,962
-	-	-	-	191,285
-	(860)	(44,562)	22,525	365,247
6,254	(12,125)	119,891	447,278	797,313
<b>\$ 6,254</b>	<b>\$ (12,985)</b>	<b>\$ 75,329</b>	<b>\$ 469,803</b>	<b>\$ 1,162,560</b>

# Charter Township of Independence

	Baycourt	Bowpointe	Bowpointe	Curtis Lane	Cranberry Pointe Lights
	Capital	Capital	Debt	Capital	Capital
	Projects	Projects	Service	Projects	Projects
<b>Assets</b>					
Cash and investments	\$ 179,746	\$ 48,292	\$ 131,244	\$ 82,822	\$ 774
Receivables - Net:					
Special assessments	-	-	13,550	21,995	-
Property taxes and other	-	-	5,681	5,204	622
Due from other funds	-	75	-	-	-
Total assets	<u>\$ 179,746</u>	<u>\$ 48,367</u>	<u>\$ 150,475</u>	<u>\$ 110,021</u>	<u>\$ 1,396</u>
<b>Liabilities and Fund Balances (Deficits)</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	78,111	-
Deferred revenue	-	-	13,550	21,995	-
Total liabilities	-	-	13,550	100,106	-
<b>Fund Balances (Deficits)</b>					
Reserved - Debt service	-	-	136,925	-	-
Unreserved - Reported in:					
Debt Service Funds	-	-	-	-	-
Capital Projects Funds	179,746	48,367	-	9,915	1,396
Total fund balances (deficits)	<u>179,746</u>	<u>48,367</u>	<u>136,925</u>	<u>9,915</u>	<u>1,396</u>
Total liabilities and fund balances (deficits)	<u>\$ 179,746</u>	<u>\$ 48,367</u>	<u>\$ 150,475</u>	<u>\$ 110,021</u>	<u>\$ 1,396</u>

**Other Supplemental Information  
Combining Balance Sheet  
Special Assessment Funds  
December 31, 2006**

Deerwood Manors Capital Projects	Deerwood 8 and 9 Capital Projects	Deerwood Capital Projects	Eastview/ Westview Debt Service	Flemings Lake Capital Projects	Rohr Road Debt Service	Sashabaw Road Capital Projects	Sashabaw Drain Capital Projects
\$ 19,307	\$ 22,801	\$ 4,168	\$ 3,408	\$ 251,862	\$ 678	\$ -	\$ (208,143)
-	-	-	-	47,914	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 19,307</u>	<u>\$ 22,801</u>	<u>\$ 4,168</u>	<u>\$ 3,408</u>	<u>\$ 299,776</u>	<u>\$ 678</u>	<u>\$ -</u>	<u>\$ (208,143)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	13,732	-	-	-	-	56,126	-
-	-	-	-	47,913	-	-	-
-	13,732	-	-	47,913	-	56,126	-
-	-	-	3,408	-	678	-	-
-	-	-	-	-	-	-	-
<u>19,307</u>	<u>9,069</u>	<u>4,168</u>	<u>-</u>	<u>251,863</u>	<u>-</u>	<u>(56,126)</u>	<u>(208,143)</u>
<u>19,307</u>	<u>9,069</u>	<u>4,168</u>	<u>3,408</u>	<u>251,863</u>	<u>678</u>	<u>(56,126)</u>	<u>(208,143)</u>
<u>\$ 19,307</u>	<u>\$ 22,801</u>	<u>\$ 4,168</u>	<u>\$ 3,408</u>	<u>\$ 299,776</u>	<u>\$ 678</u>	<u>\$ -</u>	<u>\$ (208,143)</u>

(Continued on next page)

# Charter Township of Independence

	Sashabaw Drain Debt Service	Simler Drive Capital Projects	Thendara Road Debt Service	Townsend Capital Projects
<b>Assets</b>				
Cash and investments	\$ (81,009)	\$ 147,226	\$ (50)	\$ 70,244
Receivables - Net:				
Special assessments	581,365	12,750	50	75,294
Property taxes and other	78,081	5,148	-	12,015
Due from other funds	-	-	-	85
Total assets	<u>\$ 578,437</u>	<u>\$ 165,124</u>	<u>\$ -</u>	<u>\$ 157,638</u>
<b>Liabilities and Fund Balances (Deficits)</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	182,818	42,985	-	-
Deferred revenue	581,365	12,750	-	75,295
Total liabilities	764,183	55,735	-	75,295
<b>Fund Balances (Deficits)</b>				
Reserved - Debt service	-	-	-	-
Unreserved - Reported in:				
Debt Service Funds	(185,746)	-	-	-
Capital Projects Funds	-	109,389	-	82,343
Total fund balances (deficits)	<u>(185,746)</u>	<u>109,389</u>	<u>-</u>	<u>82,343</u>
Total liabilities and fund balances (deficits)	<u>\$ 578,437</u>	<u>\$ 165,124</u>	<u>\$ -</u>	<u>\$ 157,638</u>



**Other Supplemental Information  
Combining Balance Sheet  
Special Assessment Funds (Continued)  
December 31, 2006**

Woodhull	Special Assessment	Walters Lake Board	Total
Capital Projects	Debt Service	Capital Projects	Special Assessments
\$ 70,102	\$ 8,488	\$ 150,716	\$ 902,676
4,582	-	-	757,500
3,548	-	26,294	136,593
-	-	-	160
<u>\$ 78,232</u>	<u>\$ 8,488</u>	<u>\$ 177,010</u>	<u>\$ 1,796,929</u>
\$ -	\$ -	\$ 1,375	\$ 1,375
45,110	-	-	418,882
4,582	-	-	757,450
49,692	-	1,375	1,177,707
-	8,488	-	149,499
-	-	-	(185,746)
28,540	-	175,635	655,469
28,540	8,488	175,635	619,222
<u>\$ 78,232</u>	<u>\$ 8,488</u>	<u>\$ 177,010</u>	<u>\$ 1,796,929</u>

# Charter Township of Independence

	Baycourt Capital Projects	Bowpointe Capital Projects	Bowpointe Debt Service	Curtis Lane Capital Projects	Cranberry Pointe Lights Capital Projects
<b>Revenue</b>					
Special assessments	\$ -	\$ -	\$ 4,517	\$ 5,499	\$ 813
Interest and rentals	<u>8,617</u>	<u>2,316</u>	<u>9,309</u>	<u>5,308</u>	<u>49</u>
Total revenue	8,617	2,316	13,826	10,807	862
<b>Expenditures</b>					
Capital outlay	-	-	-	-	-
Debt service	<u>-</u>	<u>-</u>	<u>44,630</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>44,630</u>	<u>-</u>	<u>-</u>
<b>Excess of Revenue Over (Under)</b>					
<b>Expenditures</b>	8,617	2,316	(30,804)	10,807	862
<b>Other Financing Sources - Transfers in</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	8,617	2,316	(30,804)	10,807	862
<b>Fund Balances (Deficits) - Beginning of year (as restated)</b>	<u>171,129</u>	<u>46,051</u>	<u>167,729</u>	<u>(892)</u>	<u>534</u>
<b>Fund Balances (Deficits) - End of year</b>	<u>\$ 179,746</u>	<u>\$ 48,367</u>	<u>\$ 136,925</u>	<u>\$ 9,915</u>	<u>\$ 1,396</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances (Deficit) - Special Assessment Funds**  
**Year Ended December 31, 2006**

Deerwood Manors	Deerwood 8 and 9	Deerwood	Eastview/ Westview	Flemings Lake	Rohr Road	Sashabaw Road	Sashabaw Drain
Capital Projects	Capital Projects	Capital Projects	Debt Service	Capital Projects	Debt Service	Capital Projects	Capital Projects
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
949	1,275	210	163	12,075	33	-	-
949	1,275	210	163	12,075	33	-	-
-	-	-	-	-	-	-	15,210
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	15,210
949	1,275	210	163	12,075	33	-	(15,210)
-	-	-	-	-	-	-	-
949	1,275	210	163	12,075	33	-	(15,210)
18,358	7,794	3,958	3,245	239,788	645	(56,126)	(192,933)
<u>\$ 19,307</u>	<u>\$ 9,069</u>	<u>\$ 4,168</u>	<u>\$ 3,408</u>	<u>\$ 251,863</u>	<u>\$ 678</u>	<u>\$ (56,126)</u>	<u>\$ (208,143)</u>

(Continued on next page)

# Charter Township of Independence

	Sashabaw Drain	Simler Drive Capital Projects	Thendara Road Debt Service	Townsend Capital Projects
<b>Revenue</b>				
Special assessments	\$ 122,688	\$ 4,250	\$ -	\$ 23,529
Interest and rentals	41,395	8,255	-	8,940
Total revenue	164,083	12,505	-	32,469
<b>Expenditures</b>				
Capital outlay	954	-	-	-
Debt service	-	-	-	34,650
Total expenditures	954	-	-	34,650
<b>Excess of Revenue Over (Under) Expenditures</b>	163,129	12,505	-	(2,181)
<b>Other Financing Sources</b> - Transfers in	-	-	9,410	-
<b>Net Change in Fund Balances</b>	163,129	12,505	9,410	(2,181)
<b>Fund Balances (Deficits)</b> - Beginning of year	(348,875)	96,884	(9,410)	84,524
<b>Fund Balances (Deficits)</b> - End of year	<u>\$ (185,746)</u>	<u>\$ 109,389</u>	<u>\$ -</u>	<u>\$ 82,343</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances (Deficit) - Special Assessment Funds (Continued)**  
**Year Ended December 31, 2006**

<u>Woodhull</u>	<u>Special</u>	<u>Walters Lake</u>	<u>Total</u>
<u>Capital</u>	<u>Assessment</u>	<u>Board</u>	<u>Special</u>
<u>Projects</u>	<u>Debt</u>	<u>Capital</u>	<u>Assessments</u>
<u>Service</u>	<u>Projects</u>		
\$ 6,309	\$ -	\$ 15,344	\$ 182,949
3,501	612	6,132	109,139
9,810	612	21,476	292,088
-	-	-	16,164
-	-	-	79,280
-	-	-	95,444
9,810	612	21,476	196,644
-	-	-	9,410
9,810	612	21,476	206,054
18,730	7,876	154,159	413,168
<u>\$ 28,540</u>	<u>\$ 8,488</u>	<u>\$ 175,635</u>	<u>\$ 619,222</u>

# Charter Township of Independence

## Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds December 31, 2006

	Agency Funds		
	Tax Collections	Trust and Agency	Totals
<b>Assets</b>			
Cash and cash equivalents	\$ 1,332,183	\$ 1,097,053	\$ 2,429,236
Delinquent taxes receivable	-	44,220	44,220
Total assets	<u><u>\$ 1,332,183</u></u>	<u><u>\$ 1,141,273</u></u>	<u><u>\$ 2,473,456</u></u>
<b>Liabilities</b>			
Accrued and other liabilities	\$ -	\$ 231,522	\$ 231,522
Due to other governmental units	1,332,183	-	1,332,183
Cash bonds and deposits	-	909,751	909,751
Total liabilities	<u><u>\$ 1,332,183</u></u>	<u><u>\$ 1,141,273</u></u>	<u><u>\$ 2,473,456</u></u>

June 14, 2007

To the Honorable Members of the  
Township Board  
Charter Township of Independence  
Oakland County, Michigan

Beginning with this year's audit, national auditing standards now call for auditors to communicate matters to the governing body that may be useful in its oversight of the Township's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this new **Report on Internal Control** will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues:

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements of Charter Township of Independence, as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified several deficiencies in internal control over financial reporting that we consider to be significant deficiencies and, in several cases, material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of entity's financial statements that is more

than inconsequential will not be prevented or detected by the entity's internal control. We consider the following to be internal control matters:

- The Charter Township of Independence implemented new financial software in 2005, which included a point of sale cash receipts module. This is a state of the art system that has the potential to reduce errors from re-entering information and provide substantially more information than the previous manual method of cash receipting. However, because some other departments rely on the paperwork produced by the prior system, the previous manual system has also stayed in place. We recommend the Charter Township review the paperwork needs of those other departments and evaluate the possibility of eliminating the manual system of cash receipts.
- We noted the Department of Public Works collects cash over the counter for various items such as the payment of utility bills and permits. We suggest exploring whether the point of sale cash receipts module could be implemented at the DPW or at a minimum, explore the use of a cash register.
- We noted the Township does not appear to have a system in place to identify and record the disposal of capital assets. As such, no disposals have been recognized in the past two years. We suggest incorporating a system where there must be departmental approval to dispose of an asset which would include identification of the asset and method of disposal. These approvals should then be sent to the finance department so the proper accounting entries can be made.

We consider the following control deficiencies to be significant deficiencies in internal control over financial reporting:

- We noted the Township does not have a system in place to review construction projects for interest that should be capitalized. The current year interest expense that should have been capitalized was ~\$303,000. We suggest reviewing outstanding construction projects for interest expense that has been incurred and should be capitalized at the end of the year.
- We noted the Township identified a reconciling item during preparation of the December 2006 bank reconciliation for ~\$400,000 which related to the receipt of state shared revenue. The bank reconciliation process worked properly since this item was correctly identified during the reconciliation. However, the next logical step, which would have been to make an adjustment for this item, was not taken to resolve the issue. We suggest that as soon as bank reconciliations are prepared that follow up or adjustment to the accounting records in response to the reconciling items identified is made. This is particularly important at the end of year cut off since the general ledger is the basis for the preparation of the annual audited financial report.



- We noted the Township does not systematically record deferred revenue for special assessments billed but not collected within 60 days of year end. This method is consistent with previous years and with how most governmental units record special assessments on a current basis. However, for financial statement presentation, deferred revenue should be recorded when the district is assessed for the entire amount of the assessment and is reduced annually by the amount billed. This resulted in an understatement of deferred revenue and an overstatement of revenue for the bills mailed but not collected within 60 days of year end. We recommend that as part of the year end analysis and pre audit closing procedures, the finance staff review collections within 60 days of year end and adjusting deferred revenue and the current year revenue accordingly.
- We noted the Township took depreciation expense in excess of cost which resulted in an overstatement of depreciation expense of \$488,000. This is likely the result of maintaining fixed asset records in an Excel spreadsheet. Excel spreadsheets can be very useful and versatile, but they do not have checks and balances which would be designed into a specific fixed asset software module. The Township should consider implementation of the fixed asset module designed to work with its software. If that is not feasible, and the Excel spreadsheet continues, we recommend reviewing the net book values of the fixed assets for reasonableness as part of the annual workpaper review.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the following significant deficiencies to be material weaknesses in internal control over financial reporting:

- Throughout the year, the General Fund pays invoices for engineering services on behalf of the developers and residents of the Township. When these invoices are paid, the General Fund records the related expenditures. In order to fund these disbursements, deposits are made by developers and residents to the Trust and Agency Fund. Because the money collected is deposited into the Trust and Agency Fund, there is a mismatch of the expenditures with the monies collected to pay for them. The Township does not record the revenue within the General Fund. We noted \$341,000 which should have been matched and transferred during the year. We recommend that these transactions be monitored throughout the year so that transfers can be made to recognize the revenue within the General Fund as it is being billed.
- We noted during the testing of cash a difference between the general ledger amount of the Munder investments and the bank statement. The general ledger balance was approximately \$800,000 lower than the bank balances as the investments were not adjusted to recognize interest income or the increase in the fair market value of the investments. Per discussion with

the Township staff, it became apparent that the journal entry to adjust the investment balances was prepared, however was not posted due to human error. The journal entry sheet was literally and accidentally attached by paper clip to other paperwork as it was handled from the desktop of the preparer. We prepared a suggested adjusting journal entry which was accepted by the Township staff and as a result, the investments were adjusted accordingly. We recommend maintaining a log or other systematic control procedure to ensure that all journal entries prepared are ultimately posted to the general ledger accounts as intended.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters.

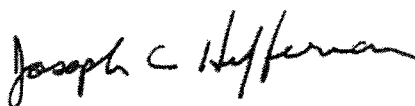
This communication is intended solely for the information and use of management, the board of trustees, and others within the Township and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**



Leslie J. Pulver



Joseph C. Heffernan